

## Aberystwyth University

### *Growing money: the economics of organic farming*

Moakes, Simon Richard; Lampkin, Nicolas Harry

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## Feature

# Growing Money: the economics of organic farming

With the economic downturn making shoppers count their pennies, many assumed that organic farmers would be amongst those hit hardest. But, contrary to popular belief, new research suggests that some areas of organic farming may be weathering the storm better than expected. We talk to Simon Moakes and Nic Lampkin who have been looking at the fortunes of the farming industry to find out more.

Over the last ten years the organic food market has boomed, with sales increasing from just over £100 million in 1993/94 to £2.1 billion in 2008. However, the current economic downturn has challenged even the sturdiest of businesses, so it has been more important than ever to look at how economically sustainable farming is across both organic and conventional sectors.

"During the start of the recession, the media reported that consumers had been buying less organic food because it is too expensive and this hearsay can affect the decisions farmers make," explains Simon Moakes, an organic and

sustainable farm systems researcher at Aberystwyth University.

"When considering whether to convert or maintain their farm as organic, farmers will base their decision on the current performance, how they see the future market conditions for organic farms and what directions the agricultural policies are likely to go in," he says.

To find out what effect the recession was having at the farm level, Simon and Nic Lampkin, Director of the Organic Research Centre at Elm Farm in Newbury, worked together to investigate the economics of 180 organic farms across the UK. Their work, which forms part of an on-going Defra research project, assessed profit and other factors for organic and comparable conventional farm types in 2007/8 and 2008/9.

Unexpectedly, they found that many sectors within organic farming had performed better than anticipated in light of the recession.

"The overall profitability in general for organic farms in 2008/9 was largely the same as in previous years," says Nic. "It seems that the credit crunch didn't have that much of an impact. Organic farming had a relatively stable income, which is reassuring for farmers."



A customer hands over money at a farmers' market

However, Nic warns that this might not be the end of the story. "2008/9 was only the first part of the economic crisis, so we might see a bigger impact on organic farming when we take a look at the overall profits for the next year," he says.

There was also some surprising news for conventional farmers too. In previous years, conventional farms were often less profitable than organic farms. But Nic

**"During the start of the recession, the media reported that consumers had been buying less organic food... and this hearsay can affect the decisions farmers make."**

and Simon found that conventional dairy and livestock farming profits had risen to almost match those for organic farms.

"Conventional farms had seen large gains in 2008/9 compared to the previous year, closing the profits gap between themselves and organic livestock and dairy farms," says Nic.

This rise in profits appears to be due to the global market in which conventional



Conventional dairy profits grew in 2008/9

## Feature

farmers operate. During the time period of the study, favourable exchange rates and supply shortages in Europe, Australia and South America made British exports more appealing to overseas markets, thus raising demand and therefore prices.

"In comparison, organic produce is sold on a less global scale than conventional. A significant proportion of British organic vegetables will be sold locally because many organic buyers are also concerned about where their food comes from," says Simon.

But it isn't all good news for conventional farmers either. "Being tied to a global

**"Organic farming is less susceptible to fluctuations in the global market and less reliant on external inputs, making profitability more stable."**

market means that they will be subject to any future global drops in price as well as these rises," he adds. In contrast, locally-focused organic farming is less susceptible to fluctuations in the global market and less reliant on external inputs, making profitability more stable.

"Overall I think organic farms are potentially more financially sustainable in the long term. They don't rely as much on external inputs such as fertiliser and crop protection products,



Belted Galloway beef cow grazing on a hillside



More cargo: supply shortages in other countries made British exports more appealing to overseas markets

which will almost certainly rise in price in the future as energy and raw material prices increase," Simon explains. "Although organic farms generally produce fewer products per hectare, their energy input is likely to be less per tonne because they don't use artificial fertilisers, which are very energy-intensive to produce. As oil reserves dwindle, it could become less economic for farmers to use artificial fertilisers and they may well have to return to organic techniques."

Simon points out that future policies need to take these external factors and the wider environmental and social factors into account to ensure that UK agriculture is sustainable for the future.

"We've already got plenty of data and suitable models available for providing robust policy recommendations on how to maintain stable farming and food production in a changing world. Now we just need to get the right support to help us achieve that," he says.

Simon and Nic are now looking at the profitability of organic farms and comparable conventional farms over several years. They will also continue to monitor any further effects caused by the recession, with their next report due in Spring 2011.

In addition, they are working on a 'sustainability indicator tool' that will try and verify the sustainability of

organic farms, both economically and environmentally. Nic hopes that the tool will help to see whether organic farms really do use less energy than conventional farms, including agricultural chemicals as well as fuel, heating and lighting. This will help to develop an accurate picture of the real costs and public benefits in both organic and conventional farming.

"In the current economy, both farmers and the government need to see exactly where their money is going and what they will get out of it," Nic says. "We hope that by giving them this information, we are helping them to set up plans for the future," he concludes.

### More information:

<http://randd.defra.gov.uk/Default.aspx?Menu=Menu&Module=More&Location=None&ProjectID=14589>



Joint of roast beef being carved